

23-5141

NOV 8 1983

MEMORANDUM FOR: Chief, Audit Staff

VIA: Inspector General

FROM: Robert W. Magee
Director of PersonnelSUBJECT: Report of Audit, Government Employees Health Association,
Inc., for the period 1 January 1982 - 31 December 1982

1. I have received the 1982 GEHA Report of Audit and noted the two recommendations concerning the Contract Health Insurance Account which read:

- a. Adjust the general ledger account balances to agree with supporting subsidiary records.
- b. Reconcile the accounts with subsidiary records quarterly.

The appropriate general ledger adjustments have been made and we will perform quarterly reconciliations.

2. I do, however, wish to make two comments. First, we have been making periodic reconciliation of the CHI account prior to this audit. Second, while implementation of the recommendations is useful, we are attempting further action to fully remedy this problem which has existed for some time. The approximately \$1,300 imbalance between the account cards and the general ledger mentioned in the report had its origins over three years ago. Both your auditors and my Insurance Branch employees can trace most of the discrepancy to that point. The reason for the imbalance centers on the very cumbersome and complex accounting procedures needed to handle the CHI premiums and the ultimate solution will be in streamlining these. Insurance Branch has begun working with both the components and the Office of Finance in this regard. In addition, we have been exploring the possibility of automating our accounting system. This is an action which has been orally recommended by your staff several times and which would significantly enhance such activity as reconciling accounts.

3. I wish to commend the audit team for their performance. Their work was accomplished in a helpful, courteous and professional manner. Their suggestions were always well thought out with a view to increasing our efficiency. Please convey my appreciation for their excellent support.

Robert W. Magee

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Exhibit B

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 Government Employees Health Association, Inc.
 Statement of Changes in Reserve Fund Balances
 For the Year Ended 31 December 1982

	Total	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1982	\$4,994,440	\$560,427	\$3,993,893	\$279,272	\$28,465	\$74,333	\$58,050
Increases:							
Premiums Withheld from or Returned by Underwriter	626,249		52,763	559,592		13,894	
Investment Income	623,803	122,639	481,719		3,458	8,971	7,016
Gain on Sale of Investments	153,394	41,940	106,841		767	1,990	1,856
Miscellaneous	810						810
Total Increases	1,404,256	164,579	641,323	559,592	4,225	24,855	9,682
Decreases:							
Salaries	565,806		19,644	528,674	3,498	13,990	
Premiums for UBLIC Dependent Coverage	42,218		42,218				
Investment Fees and Expenses	58,245	17,479	39,355		251	651	509
Miscellaneous	8,967			6,816			2,151
Total Decreases	675,236	17,479	101,217	535,490	3,749	14,641	2,660
Balance, 31 December 1982	\$5,723,460	\$707,527	\$4,533,999	\$303,374	\$28,941	\$84,547	\$65,072

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REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period
1 January 1982 - 31 December 1982

SUMMARY

1. Controls and procedures governing the custody and use of Government Employees Health Association, Inc. (GEHA) assets were generally effective and in accordance with applicable requirements. This report contains a recommendation concerning the reconciliation of certain general ledger accounts with their subsidiaries. Minor administrative matters were discussed with responsible officials and resolved during the audit.

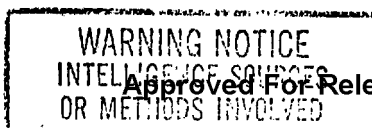
SCOPE AND OPINION

2. The audit included an examination of the GEHA statement of financial position as of 31 December 1982 and 1981 and the related statement of changes in reserve fund balances for 1982. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures, as we considered necessary under the circumstances.

3. In our opinion, the accompanying financial statements, Exhibits A and B, present fairly the financial position of GEHA at 31 December 1982 and 1981 and the results of its operations for the year ended 31 December 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of [] employees in the Insurance Branch.



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5. GEHA maintains insurance accounts for active and retired employees. The following plans are in effect:

PLANSACCOUNTSLife Insurance:

United Benefit Life Insurance Company
Active
Retired

Worldwide Assurance for Employees
of Public Agencies

Health Insurance:

Association Benefit Plan
Active
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment
Insurance:

Flight and Accident

Travel Insurance:

Air Flight

Military Air Flight

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6. The Association Benefit Plan received premiums of \$20.8 million, paid out benefits of \$21.9 million, and incurred net operating expenses of \$1.7 million for a net underwriting loss of \$2.8 million. This loss was offset from reserves held by Mutual of Omaha and the Office of Personnel Management.

DETAILED COMMENTSReconciliation of General Ledger Accounts

7. The general ledger accounts recording advance premiums for certain employees have not been reconciled with supporting

records. As a result, the balance of Account 217 which records premiums from Foreign Broadcast Information Service foreign national employees is \$1,300 less than the total of supporting subsidiary records. And the balance of Account 218 which records premiums from contract employees is \$200 more than supporting subsidiary records. We were unable to resolve these differences. Periodic reconciliation of these accounts would help to identify such differences and aid in their timely resolution.

Recommendation:

- a. Adjust the general ledger account balances to agree with supporting subsidiary records.
- b. Reconcile the accounts with subsidiary records quarterly.

Exhibit A

Government Employees Health Association, Inc.
Statement of Financial Position
31 December 1982 and 1981

<u>ASSETS</u>		
	<u>1982</u>	<u>1981</u>
Cash	\$ 400,712	\$ 241,902
Investments (Note 1)	5,503,390	4,782,454
Claims Receivable	37,761	244,836
Contingent Assets:		
Funds Withheld by Underwriter for Specified Policyholders	139,666	139,666
Less: Reserves	(139,666)	(139,666)
Equipment (Net of Depreciation)	<u>1,156</u>	<u>1,734</u>
Total Assets	<u>\$5,943,019</u>	<u>\$5,270,926</u>

<u>LIABILITIES AND RESERVES</u>		
Accounts Payable	\$ 32,128	\$ 27,389
Prepaid Premiums	137,009	181,205
Accrued Salaries	33,034	49,951
Accrued Dependent Premiums	<u>17,388</u>	<u>17,941</u>
Total Liabilities	219,559	276,486
Reserves (Exhibit B)	<u>5,723,460</u>	<u>4,994,440</u>
Total Liabilities and Reserves	<u>\$5,943,019</u>	<u>\$5,270,926</u>

Note 1: Investments are recorded at cost; market value at 31 December 1982 was \$5,860,000 and at 31 December 1981 was \$4,373,300.